

SECURITY INFORMATION

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Office Memorandum • UNITED STATES GOVERNMENT

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TO

FROM

DATE: 20 November 1951

SUBJECT: Comments on Project Outline - "Economic Capabilities for War of the USSR and its Satellites - JCS"

*Indicate by
S. J. ...*

1. The following comments represent a "first reaction" to the suggested outline of the project on "Economic Capabilities for War of the USSR and its Satellites" attached to memorandum of 15 November 1951.

2. The approach to economic potential appears to be the customary one, i.e., an inventory of available resources of labor, raw materials, and instruments of production, and the allocation of production to military and civilian use. These estimates of resources and productive capacity, obviously, are basic and necessary in any study of economic potential for both hot and cold war conditions. However, a mere inventory of resources is not sufficient as pointed out in the various memoranda setting up the need for and the functions of the Economic Intelligence Committee (see The Role of ORR in Economic Intelligence, 1 Aug. '51). Consequently, it would appear that the suggested project outline is weak in that the "levels of production and of availabilities" are accepted as a measure of "production capabilities" (see Scope of Problem, p. 1).

3. Evidence to the contrary where levels of production were not a measure of production capabilities can be found in the experience of Germany in World War II. For example, it was generally believed that Germany was mobilized for war at the time of her attack on France in the spring of 1941. Yet the outstanding feature of the German war effort was the surprisingly low output of armaments during the first three years of the war. The index of total production for the year 1942 was about 50 percent above the 1941 level, and by July 1944, when the peak of production occurred, the index had risen to 322 (Jan-Feb 1942 = 100). This astounding increase was accomplished in spite of the constant loss of productive facilities ^{due to} ~~because of~~ Allied bombing techniques.

4. According to the Strategic Bombing Survey, some of this increased production can be ascribed to the use of forced labor and to the acquisition of new territory, but the chief cause must be ascribed to the new organizational structure effected by Albert Speer who succeeded Todt as Minister of Armament Production in February 1942. Speer reorganized the Ministry and established his system of "Rings" and "Committees." It is my belief that in the Soviet Union one of the most important factors in an appraisal of production capabilities

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is also the factor of management. ^{Current} Levels of production ^{in the USSR} may be quite as misleading ^{as indicators of capabilities} as they proved to be in the case of Germany.

5. It would seem, therefore, that organization or what may be termed the management of an economy is an important factor in attaining maximum production from existing facilities. Actual production levels at any period are not necessarily an accurate indication of production capabilities. And it is in this area, I believe, that S/O can make a contribution to the proposed project. Since organization is not one of the eleven categories listed in Annex I, it would appear advisable to include this factor under the "all other" category listed on page 8 of the outline of the project.

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